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SUBJECT: SOUTHERN CHILE -- FAR FROM SANTIAGO BUT DOING JUST FINE

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¶1. SUMMARY. Southern Chile is booming. With unemployment rates half the national average or below, the south's busy cities can appear rundown physically but boast vibrant economies below the weathered surface. Not all of southern Chile enjoys the same dynamism and infrastructure, however, as the island of Chiloe remains isolated and unconnected to the national economy. In Patagonia, in the extreme south, regional identity remains strong even as the region opens up to tourism and business. END SUMMARY.

¶2. Senior Economic Officer visited the cities of Puerto Montt and Punta Arenas and Chiloe island October 2-6. He met with local mayors, tourism and business development officials, as well as university students and professors. Puerto Montt is the capital of Chile's Lake District or Region X, about 600 miles south of Santiago and with a population of 1.5 million.

Nearby Chiloe is South America's largest island after Tierra del Fuego and remains physically and economically disconnected from the mainland. Punta Arenas in Patagonia is the capital of Region XII and sits at the tip of Chile and the continent. It has a population of only 150,000 but enjoys a strong regional identity and a dynamic economy.

Puerto Montt -- Back from the Dead

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¶3. Puerto Montt appears at first blush to be what it once was -- a rundown fishing town. The city, like many others in southern Chile, was devastated by a 1960 earthquake estimated at between 9 and 11 on the Richter scale. Lost in the earthquake and subsequent tsunami was the physical evidence of the influx of German immigrants who largely settled the region in the mid-19th century. After the Spanish were evicted by the indigenous Mapuche Indians in November 1599, it was only through German immigration that southern sections of Chile around Puerto Montt were re-integrated into Chile in the mid-19th century. As a result it is still easier to find someone in Puerto Montt who speaks German rather than English.

¶4. More recently, the large expansion in commercial fish farms over the last decade has lead the economic recovery of the city and region, ending jokes about Puerto Montt being more appropriately called "Muerto" (dead) Montt. In 2005, Chile exported nearly USD 1.5 billion in salmon and trout grown in fish farms in Region X. The city enjoys a good road connection to the north via the Pan-American Highway (Route 5 in Chile) and despite its distance from Santiago does not suffer from the sense of isolation that exists in much of Chile's remote regions in the north. According to Major Quinteros, a Socialist Party major who has been in office for

six years, the city enjoys an unemployment rate of 4.3 percent, less than half the national average. Given the employment boom, Quinteros' concerns are how to solidify the economic gains through social programs emphasizing spending on education and health. Quinteros pushes enhanced infrastructure, better services and growing tourism as keys to continuing the region's economic growth.

#### Faraway Chiloe

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¶5. Chiloe, South America's second largest island after Tierra del Fuego, is the Chile that time forgot. It is characterized by houses on stilts at the water's edge, wooden churches and small family-owned farms. It is connected to the mainland, Puerto Montt being the nearest big city at a two-hour drive, by an efficient ferry system. Plans to build a bridge across the Chacao canal have not moved forward, and the latest estimates on construction costs for the 2.6 km bridge are just under USD 1 billion. With only 150,000 residents and limited economic ties to the mainland, Chiloe cannot make the economic argument to support the costs of building the bridge.

¶6. As opposed to the industrial scale fish farming near Puerto Montt, in Chiloe nothing is done on a large scale. Farms are small, exports even to the rest of Chile are minimal and tourism suffers from a lack of infrastructure. The island boasts only 2,500 beds in its hotels and guesthouses; hardly the capacity needed to encourage more visitors. That being said, the island has extensive national parks and a cultural mix of Spanish and indigenous influences no longer found elsewhere in Chile. Curiously, Chiloe was the site of the last stronghold of the Spanish empire in

South America. Fort San Antonio finally fell to Chilean forces in January 1826. Cable TV and the Internet have now invaded Chiloe but the economic potential of 21st Chile remains as yet unrealized (and maybe unwanted) on Chiloe.

#### Punta Arenas -- The End of the End

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¶7. Punta Arenas sits on the Straights of Magellan, well aware of its position balancing on the tip of South America. Region XII comprises 17 percent of Chile's national territory but has only 1 percent of the country's population, a mere 154,000 inhabitants. The city of Punta Arenas is well preserved with historic buildings and none of the sense of the narrowly-averted decay of Puerto Montt. Punta Arenas is an active city that is enjoying the economic opening and boom of southern Chile. It does not have a direct land link with Chile (all overland travel must pass through Argentina) but its unemployment level is the lowest in all of Chile at 2.9 percent. There is a sense in Punta Arenas, among the mayor and civic leaders, that the success the city and region enjoy is the result of perseverance and hard work. There is no sense of dependence for resources and attention from Santiago.

¶8. The city has a diversified economy based on oil, shipping, tourism and a strong Chilean military presence. The city has a strong tradition of immigration with a mix of Croatian, German and English immigrants who have given Punta Arenas more of an international flavor than many Chilean cities. Given the natural and unique beauty of Patagonia, Punta Arenas has found it easy to take advantage of its tourism potential. About half a million tourists pass through the city every year, about two thirds of them European, en route to the national parks that dominate Patagonia. According to tourism officials in Punta Arenas, just over half of the region's land mass is national park, which provides tourists, whether passing through on a cruise ship or spending weeks in the national parks, a wide variety of sights and activities.

#### Regional Identity

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¶9. Southern Chile enjoys a strong but not arrogant sense of

identity. In Puerto Montt, the sense is of a city and region that have found new life in a Chilean economy opening up to the world. In Chiloe, the identity is fueled by a unique history further punctuated by physical isolation from the national economy. In Patagonia, the sense of regionalism and pride in southern Chile is palpable on the street. Patagonia has its own regional flag that is displayed throughout Punta Arenas. Not only do stores display the flag, it flutters in front of government buildings alongside the Chilean flag, and even judges fly the flag in the courtrooms.

¶10. Chile has the reputation of being a Santiago-centric country. While northern Chile at times resents the sense of isolation and neglect this might entail (reftel), the south has a different take. Its identity is born of economic strength and an eagerness to open up to tourists and the world economy. Despite sitting at the end of the end of the world, southern Chile is just beginning to realize its potential.

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